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SENSITIVE  
SIPDIS

FROM AMBASSADOR JEFFREY  
NSC FOR LIZ SHERWOOD-RANDLE, BRIDGET BRINK  
DEPT PLEASE PASS USTR FOR CHRIS WILSON, MARK MOWREY  
DEPT FOR E, SEEE MORNINGSTAR, EUR/SE, EEB/TPP/BTA, EEB/CBA  
COMMERCE FOR CHERIE RUSNAK AND KRISTIN NAJDI  
USDA FAS FOR OCRA

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SUBJECT: KEY QUESTIONS FOR NEW U.S.-TURKISH ECONOMIC  
FRAMEWORK

¶1. (SBU) Following up on the successful announcement of the new Framework for Strategic Economic and Commercial Cooperation (FSECC) with Turkey during PM Erdogan's visit, we now need to put meat on the bones of the proposal. I and my staff will be working closely with the Turks, but the USG will need to come to consensus on what our vision for the FSECC is, what we expect to achieve, and what we are willing to offer. To help frame that discussion, I outline below what I believe to be the key questions that need to be answered at this point. I have also provided some context and suggestions following each question, and a list of potential deliverables that we could consider.

¶2. (SBU) How will the FSECC be orchestrated? What is the timeline and what are the key milestones? How will the Economic Partnership Commission (EPC) and Trade and Investment Framework Agreement (TIFA) meetings fit in with the FSECC?

The initial meeting of the FSECC has been tentatively set for Spring 2010 in DC. That means we have to set up the Business Council in the next few months. The first step is to agree with the Turks on Terms of Reference for the Council, followed by the Federal Register selection process. Even if the terms can be agreed in January, the earliest the Council could be stood up is probably mid-April. We should also prepare ourselves for a protracted back and forth with the GOT on the Terms of Reference, which could delay the Business Council selection process.

In the interim, State and MFA could convene the EPC in Turkey and USTR and the Foreign Trade Undersecretariat (FTU) can convene the TIFA in Washington. We can use these two meetings as planning sessions for the FSECC and an opportunity to float proposals for deliverables for the FSECC. The GOT has already begun its own interagency preparations for the FSECC, so we should expect new proposals from the Turkish side as well. Convening TIFA and EPC in the near-term would provide a shot of momentum for the project and allow the outcomes to feed into the FSECC. An EPC by late March would allow time to evaluate any proposals before an April FSECC, but that creates a tight timeline for developing our EPC agenda.

We propose holding the first meetings of the Business Council and FSECC in April in Washington. The FSECC could take up

proposals from EPC and TIFA, as well as new proposals coming out of the Business Council.

So a rough timeline would be:

January 12        DOC provides draft Terms of Reference for the Business Council

Late January    Agreement is reached on Terms and Federal Register notice is published (although there is a danger this could take weeks depending upon GOT response times)

February/March TIFA meeting in Washington, proposals made for FSECC

Late March       EPC meeting in Ankara, proposals made for FSECC

March            Selection process for Business Council

April            Business Council meets in Washington, followed by FSECC

13. (SBU) What deliverables can we offer to Turkey for the FSECC? What deliverables should we seek from Turkey?

The Turks have made it clear that they expect tangible results from this process. We need to come to the table with some attractive proposals to increase trade, investment, and bilateral cooperation that the interagency can agree on. There are bilateral agreements already in train that we can

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complete or international agreements that the Turks could sign. However, the key to success in this process, we believe, will be effective private sector input and concrete government follow-up.

A detailed but not exhaustive list of potential FSECC deliverables, based largely on previous TIFA and EPC discussions, is at the end of this cable.

14. (SBU) What are the obstacles to the formation of the Business Council and how can we ensure participation by key organizations such as the U.S. Chamber, American Turkish Council, American Business Forum in Turkey, etc.?

The goal of the Business Council is to serve as an advisory committee and provide recommendations -- we need to achieve this goal with the cleanest possible structure that meets our legal requirements.

Our understanding is that only actual companies will be able to participate in the Business Council -- non-profits cannot join, at least on the U.S. side (the Turks may have business association heads on their side). We want U.S. business groups to participate in some form because they know Turkey and represent a broad swathe of firms. One way to encourage this would be for the Council to decide to receive written reports and proposals from NGOs or create some other mechanism for these organizations to provide input.

We should seek to include organizations such as the U.S. Chamber of Commerce and its affiliates (the American Turkish Council, the American Business Forum in Turkey, and the Turkish American Business Association) in events on the margins of the FSECC and Business Council meeting and/or encourage them to host events such as receptions or speaking programs. We will also need to work with these organizations to encourage their membership to apply. We will need to actively reach out to a broad range of companies to ensure that the Business Council represents a variety of sectors and not just the usual suspects, i.e. pharma and defense.

15. (SBU) How do we solicit ideas (and complaints) from companies that are not currently doing business in Turkey (or

the U.S.)?

A problem with the Business Council model is that those companies most likely to volunteer and be selected are already doing business in Turkey. We will have a hard time getting input from companies that considered investing or trading in Turkey, but decided against it. But their input may be more valuable if we want to open up new growth and new markets rather than just incrementally expanding existing business.

We had earlier floated the idea of doing a survey of all member companies of the U.S. Chamber of Commerce and the Turkish Union of Chambers and Commodity Exchanges (TOBB). TOBB is willing to do this, but the Chamber says it doesn't have the resources to conduct the survey and analyze results. Such a survey would be an excellent way for the business NGOs to contribute to the Business Council, and we may want to take this up again with the Chamber and other groups.

16. (SBU) How do we encourage the GOT to select a representative grouping from its own private sector?

The GOT is likely to designate the existing Turkish-American Business Council (TAIK) of TOBB's Foreign Economic Relations Board (DEIK) as the Turkish half of the private sector group.

This group already has a secretariat and staff and incorporates most of the major companies doing business with the U.S. We may want to encourage the GOT through the Terms of Reference to expand the grouping to include under-represented sectors or geographic regions, as well as small and medium firms.

17. (SBU) If the ROZ legislation ever passes, how can we

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ensure that Turkish firms take full advantage of it?

The legislation for Reconstruction Opportunity Zones (ROZs) in Afghanistan and Pakistan is of great interest to Turkish firms and would be a tangible benefit to which we can point. Turkish investment in Af-Pak -- where they are known and trusted -- furthers both our bilateral U.S.-Turkish and Af-Pak policy goals. If the legislation passes, we should look for ways to get Turkish companies on the ground quickly. We could offer seminars and training for Turkish firms on how to maximize ROZ benefits. Working with Embassies Kabul and Islamabad, we also could identify particularly appropriate areas of investment for Turkish firms, and look at ways to encourage partnerships with U.S. firms.

18. (SBU) How do we highlight the many ways that the USG and U.S. private sector contribute to the growth of the Turkish economy and move the discussion beyond balance of trade figures?

Given how fixated the GOT is on "correcting" its unfavorable bilateral balance of trade with the U.S., we need to stress how USG initiatives like the Energy Working Group, TDA, Eximbank and OPIC also contribute to the Turkish economy. The role of U.S. investment is pivotal -- for example, Exxon's investment in offshore exploration or Ford's investment in co-production with Otosan. These investments, often in production for export, provide significant benefits to Turkey's bottom line, but are not credited to "the U.S. account." Similarly, many U.S. companies trade with Turkey via European subsidiaries to take advantage of the Customs Union, so their contributions are credited the EU countries. Finally, many U.S. exports to Turkey, such as cotton and scrap metal, are used by Turkey to produce its own exports to third markets.

Quantifying all of this would be difficult, and we may need to look to outside experts to take on this project (perhaps

to a business school or other academic group.) To the extent that we can put hard numbers on the non-bilateral trade contribution of the USG and private sector, it will make it easier to move the discussion into a more constructive atmosphere instead of just focusing on eliminating a supposedly "unfair" U.S. surplus.

19. (SBU) What is our long-term response on the Turkish request for tangible trade programs such as a QIZ or an expanded list of products eligible for GSP?

The GOT raises the idea of a Qualified Industrial Zone (QIZ) in almost any meeting related to trade. Our standard response has been that it would be difficult to get through Congress. While accurate, that does not satisfy the Turks, who think we should be willing to expend some political capital on their behalf, as we do for other key allies.

There are ways to make a QIZ more politically palatable to Congress. The original QIZs in Egypt and Jordan were designed to increase cooperation and strengthen ties with Israel. We can make a compelling case for a similar initiative with Turkey-Armenia and, to a lesser extent, Turkey-Israel. These two countries also have powerful lobbies on the Hill that could be enlisted to help make Turkey's case, if there is an improvement in the political environment with both countries. The case for a QIZ becomes much stronger if it is tied to USG political goals in the region, and this has the added bonus of putting the ball back in the Turkish court, as a QIZ would be tied to their own willingness to move politically. This is not to say that we need to offer the Turks a QIZ, but we do need to think creatively about how we can respond to likely Turkish requests for trade benefits.

Turkey is likely to graduate completely from the Generalized System of Preferences (GSP) program in the near future when its GDP per capita makes it an "upper income country" as

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defined by the World Bank. This is a welcome sign of Turkey's economic success, but there is little that can be done about the negative impact it will have on Turkish exporters. We should encourage Turkey to start thinking now about new types of bilateral or multilateral trade agreements (e.g, a sectoral FTA in agriculture, which is excluded from the Customs Union, joining the WTO Government Procurement Agreement, etc.) that would provide new trade access to the U.S. market, to substitute for its inevitable loss of GSP. Turkey needs to accept that if it really is an economic power, it cannot continue benefiting from programs designed for developing countries. Our trade relations going forward will have to be based on mutually beneficial agreements between developed-world partners. That will be a tough sell, but it's a message we need to start delivering now, reinforcing the message that we view Turkey as an economic partner, not an aid recipient.

10. (SBU) Below is a list of potential FSECC deliverables. Items drawn from the EPC or TIFA Action Plans are noted.

-- Agreements and Trade Preference Systems

\* Mutual

Sign the Agricultural Memorandum of Understanding (EPC, although this may be difficult given the current problems in biotech)

Finalize and sign the Science and Technology Cooperation Agreement (EPC, although actual signing ceremony and follow-on work should take place separately from EPC, with participation from science agencies)

Sign a Letter of Intent on business matchmaking between the Small Business Administration and its Turkish equivalent (KOSGEB) (EPC)

Sign a Framework Agreement between the Export-Import Banks of the two countries to allow for joint financing of projects in third countries

Sign a reciprocal maritime agreement, increasing the flexibility of U.S. and Turkish maritime service providers to operate in the other country's market (TIFA)

Agree on a Memorandum of Understanding to recognize CE marks on U.S.-origin products entering Turkey via Europe or to recognize U.S. quality standards as being equivalent to European for customs purposes

Explore possibility of a preferential trade agreement, perhaps in conjunction with a South Caucasus initiative involving the U.S., Turkey, Azerbaijan, Armenia and Georgia.

\* U.S.

Continue to push for passage of pending ROZ legislation for Afghanistan and Pakistan, opening opportunities for Turkish firms in that area, and plan ROZ seminars for Turkish firms if the legislation passes (both EPC and TIFA)

Explore possibility of creating an ROZ in northern Iraq

Explore potential for expanding the existing Qualified Industrial Zone (QIZ) program to Turkey (with Israeli participation) or creating a new QIZ program for Turkey-Armenia (with minimum Turkish participation requirements in an Armenian QIZ or minimum Armenian participation requirements in a Turkish QIZ)

\* Turkey

Sign WTO Government Procurement Agreement (EPC)

Join Cape Town Treaty on aircraft financing (EPC)

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-- Intergovernmental Cooperation and Measures to Facilitate Trade and Investment

\* Mutual

Form an Intellectual Property Rights Working Group to discuss issues of mutual interest and develop strategies for addressing each country's IPR concerns (TIFA)

Finalize Trade Development Agency (TDA) proposals on energy and climate change feasibility studies and explore possibility of a reverse trade mission on nuclear energy

Increase cooperation between the U.S. Embassy and the Investment Support and Promotion Agency of Turkey (ISPAT) to identify marketing opportunities in the United States and to reach key audiences

Establish a Pharmaceutical Sector Working Group, chaired by the Ministry of Health, to explore ways to increase the opportunities for trade and investment in pharmaceuticals and look at methods for establishing Turkey as a platform for pharmaceutical research, production, and export (already begun, although recent developments in the pharmaceutical sector have made progress difficult)

Survey the two business communities to see if there are specific fixes that they would like to see implemented to remove existing obstacles to trade and investment

Develop a program for graduate-level students or entry-level

officials to work in the trade and investment-related agencies of the other country

Explore ways to work jointly to facilitate Turkish and U.S. trade and investment in Iraq, the Caucasus, Afghanistan, Pakistan and other areas of particular interest (both EPC and TIFA)

\* U.S.

Complete pest risk assessment to allow fresh fig and pomegranate exports to U.S. (EPC)

\* Turkey

Pass new patent law (EPC)

Provide reciprocal treatment for business and investor visas/work permits for U.S. citizens investing in or working in Turkey (EPC)

-- Increasing Awareness and Information Exchanges

\* Mutual

Hold seminars in both countries on import-export rules (customs, agricultural sanitary requirements, etc.), how to do business in the other country, what financing tools are available, what special visas can be utilized, etc. (TIFA)

Bring USTR experts to talk about how to maximize Turkish usage of its Generalized System of Preferences eligibility (TIFA)

Conduct and orientation and training program for the Undersecretariat of Foreign Trade on how the U.S. Commercial Service works to promote U.S. goods and services abroad, and provide assistance in developing similar Turkish programs

Develop training tools for customs officers in both countries on how export documents are certified in the exporting country and what documents are sufficient to meet local regulations (for example, certificates issued by U.S. states)

\* U.S.

Work to increase awareness of U.S. ExIm Bank and OPIC

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products and how they can help finance Turkish companies' and municipalities' projects

Identify Turkish sectors that could benefit from TDA feasibility studies or TDA-funded orientation trips to see U.S. operations

Continue outreach on the "Invest in America" initiative (EPC)

-- Increasing Partnership between Private Sectors

\* Mutual

Encourage the U.S. Chamber of Commerce and TOBB to create an online B2B portal (based on existing TOBB architecture) to facilitate business matchmaking and provide information on doing business in the other country, such as customs requirements with exemplars

Encourage business associations to organize trade missions for their members to the other country and to develop annual plans to advance U.S.-Turkish commercial relations

Ask business associations in both countries to encourage their members to attend trade fairs focused on the other country

Encourage greater cooperation between specific industry associations in each country

\* U.S.

Hold the American Society of Travel Agents (ASTA) annual conference in Istanbul in April 2010 to highlight Turkey's potential as a tourist destination (will already happen)

\* Turkey

Create an annual award program to recognize the top Turkish firms that import from or export to the United States  
Jeffrey

"Visit Ankara's Classified Web Site at <http://www.intelink.sgov.gov/wiki/Portal:Turkey>"